

Message Text

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SUBJECT: VIEWS OF LIBERAL ELDER STATESMAN

1. SUMMARY. ITALIAN LIBERAL PARTY (PLI) HONORARY PRESIDENT GIOVANNI MALAGODI TAKES A POSTIVIE VIEW OF RECORD OF CARTER ADMINISTRATION THUS FAR AND OF U.S. POSITION ON EUROCOMMUNISM. HE FEARS ECONOMIC TROUBLES IN FALL MIGHT TRIGGER NEW POLITICAL CRISIS WHICH WOULD MOVE ITALY FURTHER DOWN QUOTE SLIPPERY SLOPE UNQUOTE TO LOSS OF ECONOMIC AND POLITICAL LIBERTIES. HE DOUBTS PM ANDREOTTI'S ABILITY TO MANAGE PROGRAMMATIC ACCORD AND HOPES PRESIDENT CARTER WILL URGE ANDREOTTI TO TAKE A FIRMER STAND. END SUMMARY.

2. IN JULY 15 MEETING WITH AMBASSADOR, GIOVANNI MALAGODI, GRAND OLD MAN AND HONORARY PRESIDENT OF THE PLI, COMMENTED THAT PRESIDENT CARTER HAS GIVEN AMERICAN QUOTE A NEW PRIDE UNQUOTE IN ITSELF. HE JUDGED THE ADMINISTRATION'S POSITION ON EUROCOMMUNISM AS CLEAR AND CORRECT. COMMENT: MALAGODI NOW REPRESENTS THE MINORITY RIGHT WING OF THE PLI, MAKING HIM POTENTIALLY ONE OF THE HARDEST TO SATISFY ON THE EUROCOMMUNISM ISSUE. END COMMENT.

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3. ON THE ECONOMIC SIDE, MALAGODI EMPHASIZED THAT SIGNS ARE BAD -- DOMESTIC AND FOREIGN DEMAND ARE FALLING AND THE GLOBAL VOLUME OF CREDIT IS EXCEEDING THE IMF AND EEC GUIDELINES. THE RECENT INCREASE IN THE BANK OF ITALY'S HARD CURRENCY RESERVES IS ALMOST WHOLLY DUE TO BANK ADVANCES FROM U.S. BANKS AND OTHER SHORT TERM FACOTRS.THERE IS A CLEAR NEED, SAID MALGODI, TO

GET THE ECONOMY MOVING AGAIN. THE MOST EFFECTIVE MEANS WOULD BE STIMULATION OF THE CONSTRUCTION INDUSTRY. UNFORTUNATELY, THE PROGRAMMATIC ACCORD CONTAINS FEW INDICATION THAT THE NECESSARY MEASURES TO REVIVE THE ECONOMY WILL BE TAKEN.

4. IT IS TRUE, MALAGODI COMMENTED, THAT THE PROGRAMMATIC ACCORD REPRESENT THE LEAST THAT THE PCI COULD ACCEPT AND THE MOST THAT THE DC COULD CONCEDE. NEVERTHELESS, THERE IS NO DOUBT THAT THE AGREEMENT IS THE BEGINNING OF A COMPROMISE BETWEEN THE TWO GREAT FORCES. THE COUNTRY IS ON A QUOTE SLIPPERY SLOPE UNQUOTE. A LSIDE ON THAT SLOPE COULD FIRST DESTROY THE FREE MARKET CHARACTER OF THE ITALIAN ECONOMY AND EVENTUALLY LEAD TO THE LOSS OF LIBERTIES. EVERYTHING NOW DEPENDS UPON PM ANDROTTI'S MANAGEMENT OF THE ACCORD. UNFORTUNATELY, SAID THE PLI LEADER, ANDROTTI IS PRONE TO OVER-CONFIDENCE. HIS PARTY, THE DC, DOES NOT HAVE A TRADITION OF PROTECTING THE FREE MARKET, SO THE OUTLOOK CANNOT BE VERY HOPEFUL. IF THE ECONOMY FALTERS IN THE FALL - MALGODI THINKS IT WILL -- AND IF VIOLENCE FLARES AGAIN AS A RESULT, THEN A NEW CRISIS WILL BE DIFFIVULT TO AVOID. FURTHER AND PERHAPS IRREVERSIBLE CONCESSIONS TO THE PCI WOULD BE DIFFICULT TO AVOID.

5. MALAGODI HOPED THAT PRESIDENT CARTER WOULD USE THE LIMITED OFFICIAL USE

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OCCASION OF THE FORTHCOMING VISIT OF PM ANDREOTTI TO ENCOURAGE ANDREOTTI WOWARD GREATER POLITICAL THOUGHNESS. THE AMERICAN SIDE SHOULD LEAVE NO DOUBT THAT IS IS AWARE OF THE RISKS ITALY IS RUNNING AND OF THE POSSIBLE COSTS OF FURTHER COMPROMISE. GARDNER

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